EXPANSION OF DEFENSE PRODUCTION (DPA REVOLVING FUND)

EXPENSES, DEFENSE PRODUCTION ACT

PURPOSE OF THE PROGRAM

Under the Defense Production Act, designated agencies were authorized with Presidential approval to incur obligations and make expenditures to expand production of materials for programs certified as essential to the national defense. Materials excess to defense requirements were sold to other Federal agencies or the public. Between 1954 and 1974, the program was conducted primarily through a revolving fund financed by borrowing from the Treasury; the borrowing could not exceed $2.1 billion at any one time.

After 1974, appropriations were requested for the expenses of selected expansion of defense production, as well as for the payment of interest on Defense Production Act inventories.

AUTHORIZATIUON FOR THE PROGRAM

Basic authority for the program stemmed from sections 302, 303, and 304(b) of the Defense Production Act of 1950, as amended. Its provisions and numerous implementing Executive Orders are described below.

HISTORY OF THE PROGRAM AND DESCRIPTION OF ACTIVITIES

The Defense Production Act of 1950, approved September 8, 1950, in part authorized the development and maintenance of whatever military and economic strength might be necessary to carry out the national defense, including expansion of productive facilities. Certain functions under title III of the Act were originally delegated to GSA under Executive Order 10161 of September 9, 1950, the most important of which was the purchase of or commitment to purchase necessary quantities of metals, minerals, and other raw materials.

Executive Order 10281 of August 28, 1951 created the Defense Materials Procurement Agency (DMPA), and transferred the above functions from GSA to DMPA, although the GSA Administrator was also Administrator of DMPA. Functions were to be carried out in accordance with programs certified by the Defense Production Administrator, except that the Secretary of Agriculture certified those pertaining to food products. On February 4, 1953, Executive Order 10433 transferred program certification responsibilities to the Office of Defense Mobilization, and Executive Order 10480, dated August 14, 1953, abolished DMPA and authorized GSA to carry out the primary expansion of production functions under title III of the Defense Production Act. Within GSA, the functions were assigned to the Emergency Procurement Service (later the Defense Materials Services, then Property Management and Disposal Service, and finally, Federal Preparedness Agency).

The procedure for development and certification of defense materials expansion programs began when the agency having general mobilization and central programming functions determined requirements for minerals, metals, and other materials, and the need for expansion of productive capacity of supply. Originally, this was the Office of Defense Mobilization, which became the Office of Civil and Defense Mobilization, then the Office of Emergency Planning, the Office of Emergency Preparedness and, finally the Federal Preparedness Agency. Where appropriate, DMPA (GSA) was requested to develop a resources expansion program stating firm quantity and time objectives. DMPA then developed a fairly detained plan and course of action designed to obtain the requirements, including the types of assistance and estimates of borrowing authority needed to accomplish expansion. A timetable was submitted indicating time phasing of contracts and borrowing authority utilization.

The central programming agency processed the “program” and issued certificates, generally by commodity, setting forth essentiality and authorizing DMPA (GSA) to borrow appropriate amounts from the Treasury. The administrative agency was also responsible for negotiating, consummating, and administering resulting contracts or agreements, or for issuing the domestic purchase programs required to accomplish expansion objectives.

In 1951, section 304(b) of the Defense Production Act was amended to establish a unique system for financing Government programs, also requiring unusual budget and control techniques. It provided in part:

> "That the amount borrowed under provisions of this section by all such borrowers shall not exceed an aggregate of $2,100,000,000 outstanding at any one time. Furthermore, when any contract, agreement, loan, or other transaction heretofore or hereafter entered into pursuant to section 302 or 303 imposes contingent liability upon the United States, such liability shall be considered for the purposes of sections 3679 and 3732 of the Revised Statutes, as amended, an obligation only to the extent of the probable ultimate cost to the United States under such transaction."

The amendment also required that the President submit a report to Congress, not less often than once each quarter, on the total amount of contingent liability assumed by the United States in connection with these programs, together with information on the basis used for determining the probable ultimate net cost which would become an actual charge against borrowing authority. This reporting requirement was later changed to an annual estimate through a 1965 amendment to the Act.

Accordingly, program requirements were estimated by the administrative agency, and later certified by the central programming agency, on the basis of both "gross transactions" and "probable ultimate cost." The former set a limit on the total monetary value of production covered by contract under a commodity program, whether purchase, commitment, guaranteed market, or minimum price guarantee type. The "probable ultimate net cost" was certified for each commodity.

Interest was also paid to the Treasury on all Treasury borrowings at rates established for comparable types of marketable securities. This modified revolving fund mechanism replaced to traditional funding concept, and permitted a much larger volume of transactions to be carried out that would have been possible previously. It was contemplated that proceeds from the sale of materials, either commercially or to the national stockpile, would keep the fund in a liquid condition.

In 1954, it was determined that a further financial control, "working capital", was essential, becoming a third element in programming, certification, and control. This recognized that the buildup of non-disposable inventory and outstanding advances or loans, while not "probable ultimate net cost" as contemplated by statute, nonetheless represented a requirement for borrowing from the Treasury. It was therefore also a drain against the maximum borrowing authority of $2.1 billion outstanding at any one time. In addition, accrued expenditures were estimated, apportioned, and controlled on a fiscal year basis.

On June 30, 1964, the Act was again amended by P.L. 88-343 to extend until June 30, 1966 its priorities and allocations and expansion of productive capacity and supply sections; to change the terminal date covering purchase or sale contracts from June 30, 1965 to June 30, 1975; and to establish a limitation of $100 million on new contracting authority, including contingent liabilities. Later amendments granted extensions to the substantive authorities of the Act, usually on a two-year basis. On December16, 1975, P.L. 94-152 granted the last extension, to September 30, 1977, "Providing that all authority hereby or hereafter extended under Title III of this Act shall be effective for any fiscal year only to such extent or in such amounts as are provided in advance in appropriation acts."

By the end of 1953, about 85% of the eventual DMPA/GSA Defense Production Act programs had been covered by some type of Government commitment, although only 38% had been completed. Contracting was completed by the end of 1958 and, by 1974, programs were 99.3% complete. These included the following:

1. Purchase programs designed to increase domestic production of materials such as beryl, mica, mercury, and manganese by fixed incentive prices available to all domestic producers. These

programs terminated at various dates between December, 1957 (for mercury) and June, 1962 (beryl and mica).

2. Basic expansion programs to increase mining or refining capacity for such materials as aluminum, copper, nickel, molybdenum, flourspar, titanium, and zinc by offering guaranteed markets under specific contracts and for specific projects. Most contracts were underwritten for a five-year production period, and expired at various dates through December, 1970. One of the final programs initiated culminated in the Duval contract of 1967 which provided delivery of approximately 109,000 tons of copper.

3. An $880 million exclusive rubber procurement program, terminating in 1952.

4. Research and pilot plant programs which developed new processes for economic recovery of low-grade domestic ores, or for development of new processes for producing new materials such as titanium and synthetic mica. These projects usually required 1 to 3 years for completion.

5. Production of nickel, magnesium, and graphite from Government-owned industrial plants.

6. A program for expansion of machine tool producing capacity by (a) placing orders constituting a guaranteed market for machine tools, cutting tools, and industrial gauges; (b) installing, under lease, Government-owned machine tools in private plants; and (c) placing pool order contracts for general purpose machine tools to be activated in the event of future emergency.

7. A program which “rounded out” capacity to produce steam turbines and turbine gears by installing machinery and equipment in plants of private contractors.

8. DMPA/GSA also certified direct loans to be made by the Treasury (RFC) or the Export-Import Bank, and participated in determinations on the issuance of accelerated tax amortization certificates.

These expansions were geared to meet civilian, military, and stockpiling requirements. Changing technology, world supply, and lower stockpile objectives, however, resulted in overproduction for several commodities. The Government acquired materials totaling $3.5 billion, of which $2 billion was sold to the national stockpile, private industry, or other Government agencies. This left an inventory as of June 30, 1963, valued at cost at $1.5 billion, creating a major operating program for receipt, custody, and eventual disposition.

Within a few years, financial problems accumulated and eventually became chronic. Original borrowing authority was later supplemented by an appropriation of $108 million to pay interest on notes when the borrowing authority was exhausted and cash receipts were temporarily insufficient of pay interest that was due. By June 30, 1973, losses were reflected at $1,760 million, with an inventory carried at an acquisition cost of $588 million. At the inventory market price of $307 million, the deficit amounted to over $2 billion. Interest expenses on Treasury borrowing amounted to approximately $128 million for 1974 and $130 million for 1975. Declining ability to produce revenue, mounting losses, and the continuing obligation to pay Treasury interest on outstanding borrowing, all compounded the problem.

Legislative solutions were proposed at various stages, but it was not until September 30, 1974, that P.L. 93-426 was enacted, circumventing impending bankruptcy of the fund. This law repealed the borrowing authority previously authorized by section 302 of the Defense Production Act, and authorized the Secretary of the Treasury to cancel the outstanding balance of all unpaid notes, together with any accrued or unpaid interest on those notes. Also, any cash balances remaining in the fund on June 30, 1974, was to be deposited into miscellaneous receipts of the Treasury. The same applied to any funds received after that date for transactions entered into pursuant to sections 302 (loans) or 303 (purchases) of the Defense Production Act. As a result, the “Expansion of Defense Production” revolving fund was terminated as of September 30, 1974. Historical budgetary tables on the status of programs and financial authority during the period follow.

Although revolving fund operations terminated in 1974, related financial activity continued for a number of years because P.L. 93-426 also amended section 711 of the Act to require that appropriations be made to pay Treasury the interest on (a) the current market value existing Defense Production Act inventories as of the first day of each fiscal year after July 1, 1975, and (b) the cumulative amount of disbursements t carry out the purposes of sections 302 and 303 (i.e., interest on the value of any new materials acquired).

In 1978, GSA requested $1,388,000 in appropriations related to expansion of productive capacity. $1,300,000 was for recycling superalloy scrap ($600,000) and development of chromium substitutes ($700,000) to reduce dependency on foreign suppliers for chromium. A further $88,000 was for payment of interest on this new activity. Congress appropriated $1,300,000, but refused to support the "bookkeeping" requirement for interest payment. Enacted funds were transferred to the Department of the Interior for execution. For 1978 and subsequent, responsibilities for expansion of defense production capabilities was transferred from GSA as part of Reorganization Plan No. 3 of 1978.

The responsibility for payment of interest on the value of current DPA inventories remained with GSA, however. Appropriations were requested in the following years and amounts, under the heading "Expenses, Defense Production Act", for payment of this interest (these would be deposited as miscellaneous receipts into the Treasury): 1977, $10,540,000; 1979, $4,374,000; and 1980, $1,519,000. Congress, however, viewed this as a "bookkeeping" item, intended to emphasize the need for disposal of inventory in excess of requirements, and refused to enact the appropriations. No further appropriation requests were made.

SELECTED FINANCIAL DATA – DPA REVOLVING FUND
$(Millions)

	Cumulative		Net	------Gross Transactions (Cumulative)--------				Percent Completed	Inventory
As of	Borrowing Allocated	Authority Certified	Budget Expendit.	Certified	Consummate	Completed	Outstand.	To Con-sumated	At Cost (Cumulat)
				Under Defense Materials Procurement Agency					
6/30/51			131.0						
9/30/51	805.0	788.5		4,280.6	1,626.0	------	------		
1/31/52	1,005.2	935.1		5,317.3	2,858.3	------	------		
3/31/52	1,005.2	859.2		6,577.0	3,428.7	------	------		
6/30/52	1,100.0	1,086.3	206.8	6,577.0	4,597.9	------	------		90.8
6/30/53	1,100.0	1,100.0	225.0	8,358.0	6,468.5	2,349.3	4,119.2	36.3%	102.8
6/30/54	1,250.0	1,156.5	573.0	7,595.2	6,356.4	3,127.2	3,229.2	49.2%	374.3
6/30/55	1,250.0	1,216.1	685.9	7,804.1	7,187.2	3,836.7	3,350.5	53.4%	441.7
6/30/56	1,470.0	1,456.8	855.4	8,383.0	7,113.3	4,657.0	2,456.3	65.5%	567.2
6/30/57	1,520.0	1,265.6	984.1	7,771.2	7,315.8	5,314.4	2,001.4	72.6%	679.6
6/30/58	1,755.0	1,754.0	1,416.6	7,735.9	7,550.1	5,968.2	1,581.9	79.0%	1,144.6
6/30/59	1,804.0	1,804.0	1,675.2	7,646.9	7,489.9	6,387.7	1,102.2	85.3%	1,371.6
6/30/60	1,804.0	1,804.0	1,815.2	7,643.9	7,492.7	6,686.5	806.2	89.2%	1,452.4
	108.0	108.0	Capital Appropriation 1/						

6/30/60	1,912.0	1,912.0							
6/30/61	1,912.0	2/	1,802.8	2/	7,481.3	6,908.9	572.4	92.3%	1,484.0
6/30/62	1,962.0		1,832.0		7,508.7	7,218.0	290.7	96.1%	1,500.0
6/30/63	1,962.0		1,841.4		7,566.0	7,367.9	198.1	97.4%	1,500.0
6/30/64	2,052.0		1,968.2		7,635.8	7,548.3	87.5	98.9%	1,464.0
6/30/65	2,067.0		2,016.3		7,719.0	7,626.9	93.0	98.8%	1,380.0
6/30/66	2,067.0		1,866.2		7,821.0	7,703.0	118.3	98.5%	1,182.0
6/30/67	2,067.0		2,031.5		7,924.6	7,771.6	153.0	98.1%	1,030.0
6/30/68	2,067.0		2,080.9		8,102.1	7,844.0	258.2	96.8%	978.0
6/30/69	2,067.0		2,246.2		8,299.0	7,932.0	367.0	95.6%	911.4
6/30/70	2,067.0		2,219.9		8,527.3	8,045.0	483.0	94.3%	748.4
6/30/71	2,051.0		2,032.8		8,479.0	8,161.0	318.2	96.2%	674.0
6/30/72	2,040.0		2,032.8		8,351.0	8,276.0	75.0	99.1%	656.0
6/30/73	2,030.0		2,032.8		8,456.1	8,390.3	66.0	99.2%	588.0
6/30/74	2,028.0		2,032.8		8,593.4	8,537.0	57.0	99.3%	395.3
9/30/74	2,030.0		2,032.8		8,566.0	8,509.0	57.0	99.3%	361.3

Fund Terminated.

1/ Capital appropriation to DPA Revolved Fund: 1960 Supplemental Appropriations Act, P.L. 86-213, September 1, 1959.

2/ Discontinued in 1961 and subsequent years.